

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|---|---------------------------------|--|------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name <u>Alger County Transit Authority</u> | County <u>Alger</u> |
| Audit Date <u>9/30/05</u> | Opinion Date <u>12/15/05</u> | Date Accountant Report Submitted to State: <u>2-9-06</u> | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|---|--------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <u>Anderson, Tackman & Co, PLLC</u> | | | |
| Street Address <u>102 W. Washington St Suite 109</u> | City <u>Marquette</u> | State <u>MI</u> | ZIP <u>49855</u> |
| Accountant Signature <u>[Signature]</u> CPA | | | |

**Alger County Transit Authority
Financial Statements
For the Year Ended September 30, 2005**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Alger County Transit Authority
Munising, Michigan 49862

We have audited the accompanying financial statements of the business-type activities of the Alger County Transit Authority, as of and for the year ended September 30, 2005, which collectively comprise the Alger County Transit Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Alger County Transit Authority at September 30, 2005, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Alger County Transit Authority's financial performance provides an overview of the Authority's financial activities for the year ended September 30, 2005. Please read it in conjunction with the financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net assets for the Authority as a whole were reported at \$852,161. Nets assets are comprised of 100% business-type activities.
- During the year, the Authority's total expenses were \$1,030,345, while revenues from all sources totaled \$1,082,511 resulting in an increase in net assets of \$52,165.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 7 and 8) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority finances.

Reporting the Authority as a Whole

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's *net assets* and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's operating base and the condition of the Authority's capital assets, to assess the *overall financial health* of the Authority.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Authority's activities as business-type activities because the Authority charges a fee to residents to help it cover the cost of services it provides.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
The Authority as a Whole (Continued)

Table I provides a summary of the Authority's net assets as of September 30, 2005 and 2004.

| Table 1 Net Assets | | |
|-------------------------------|-------------|------------|
| | 2005 | 2004 |
| Current and other assets | \$ 55,682 | \$ 104,145 |
| Capital assets, net | 1,030,897 | 1,005,127 |
| Total Assets | 1,086,579 | 1,109,272 |
| Current liabilities | 234,418 | 309,276 |
| Non-current liabilities | - | - |
| Total Liabilities | 234,418 | 309,276 |
| Net Assets: | | |
| Invested in capital assets | 1,009,231 | 1,005,127 |
| Restricted for transportation | (157,070) | (205,131) |
| Total Net Assets | \$1,086,579 | \$ 799,996 |

Net assets of the Authority's business-type activities stood at \$1,086,579. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$(157,070).

The \$(157,070) in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2005 and 2004.

| Table 2 Change in Net Assets | | |
|---|-----------|-----------|
| | 2005 | 2004 |
| Operating revenues: | | |
| Charges for services | \$432,434 | \$392,149 |
| Other operating revenues | - | - |
| Total Operating Revenues | 432,434 | 392,149 |
| Operating expenses: | | |
| Operations | 850,631 | 831,889 |
| Depreciation | 179,714 | 148,585 |
| Total Operating Expenses | 1,030,345 | 980,474 |
| Income (loss) from Operations | (597,911) | (588,325) |
| Non-operating Revenues (Expenses): | | |
| Local | 88,915 | 80,852 |
| State | 264,314 | 257,545 |
| Federal | 87,771 | 76,532 |
| Capital grants and contributions | 209,077 | 423,656 |
| Total Non-operating Revenues (Expenses) | 650,077 | 838,585 |
| Increase (decrease) in net assets | 52,165 | 250,260 |
| Net assets, beginning | 799,996 | 549,736 |
| Net Assets, Ending | \$852,161 | \$799,996 |

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
The Authority as a Whole (Continued)

The Authority's total revenues were \$1,082,511. The total cost of all programs and services was \$1,030,345, leaving an increase in net assets of \$52,165 as a result of fiscal year 2005 operations.

This year, the increase in assets came from a combination of additional operating revenue and from holding down our expenses. This is a goal we will continue to work on – for operating revenues to be higher than operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 and 2004, the Authority had \$1,030,897 and \$1,005,127, respectively, invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

| | 2005 | 2004 |
|---------------------------|--------------------|--------------------|
| Buildings | \$929,794 | \$929,194 |
| Equipment and furnishings | 248,553 | 237,194 |
| Buses | 937,668 | 945,057 |
| | 2,116,015 | 2,111,445 |
| Accumulated depreciation | (1,085,118) | (1,106,318) |
| Totals | <u>\$1,030,897</u> | <u>\$1,005,127</u> |

Debt

The Authority has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In Fiscal Year 2006, we will receive a slight increase in state operating and an approximate 3% increase in federal operating. Our local revenues will increase slightly, due to an increase of fare rates. We will attempt to keep our service level and expense budget the same as Fiscal Year 2005 so that we can continue to capitalize on the increased revenue to reduce our deficit.

CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority Administrator at Alger County Transit Authority, P.O. Box 69, Munising, Michigan 49862.

ALGER COUNTY TRANSIT AUTHORITY
Balance Sheet / Statement of Net Assets
September 30, 2005

| | Balance Sheet | Adjustments | Statement of Net Assets |
|--|---------------------|------------------|----------------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 33,221 | \$ - | \$ 33,221 |
| Due from federal government | 21,469 | - | 21,469 |
| Due from state government | (5,108) | - | (5,108) |
| Due from local agencies | (18,327) | - | (18,327) |
| Fare income receivable | 18,337 | - | 18,337 |
| Prepaid insurance | 6,090 | - | 6,090 |
| TOTAL CURRENT ASSETS | <u>55,682</u> | <u>-</u> | <u>55,682</u> |
| FIXED ASSETS: | | | |
| Buses | 937,668 | - | 937,668 |
| Other vehicles | 77,050 | - | 77,050 |
| Equipment | 99,325 | - | 99,325 |
| Facility | 929,794 | - | 929,794 |
| Fixtures and furniture | 72,178 | - | 72,178 |
| Construction in progress | - | - | - |
| | 2,116,015 | - | 2,116,015 |
| Less accumulated depreciation | (1,085,118) | - | (1,085,118) |
| NET FIXED ASSETS | <u>1,030,897</u> | <u>-</u> | <u>1,030,897</u> |
| TOTAL ASSETS | <u>\$ 1,086,579</u> | <u>\$ -</u> | <u>\$ 1,086,579</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 123,854 | \$ - | \$ 123,854 |
| Accrued payroll and related liabilities | 35,117 | - | 35,117 |
| Unearned revenue | 100 | - | 100 |
| Line of credit | 46,000 | - | 46,000 |
| Compensated absences | 29,347 | - | 29,347 |
| TOTAL CURRENT LIABILITIES | <u>234,418</u> | <u>-</u> | <u>234,418</u> |
| TOTAL LIABILITIES | <u>234,418</u> | <u>-</u> | <u>234,418</u> |
| FUND BALANCE / NET ASSETS | | | |
| Contributed capital | 1,009,231 | (1,009,231) | - |
| Retained earnings | (157,070) | 157,070 | - |
| TOTAL FUND EQUITY | <u>852,161</u> | <u>(852,161)</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 1,086,579</u> | | |
| Net Assets | | | |
| Invested in Capital Assets - Net of Related Debt | | 1,030,897 | 1,030,897 |
| Restricted for Transportation | | (178,736) | (178,736) |
| TOTAL NET ASSETS | | <u>\$ -</u> | <u>\$ 852,161</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY
Statement of Revenues, Expenses, and Changes in Retained Earnings/Statement of Activities
For the year ended September 30, 2005

| | Full Accrual Basis | Adjustments | Statement of Activities |
|--|--------------------------|---------------------|-------------------------------|
| Operating Revenues | \$ 432,434 | \$ - | \$ 432,434 |
| Operating Expenses: | | | |
| Labor | 331,182 | - | 331,182 |
| Fringe Benefits | 169,900 | - | 169,900 |
| Services | 34,540 | - | 34,540 |
| Materials and Supplies | 136,942 | - | 136,942 |
| Utilities | 25,212 | - | 25,212 |
| Casualty and Liability Insurance | 96,150 | - | 96,150 |
| Miscellaneous | 4,848 | - | 4,848 |
| Finance Charges | 284 | - | 284 |
| Leases and Rentals | 536 | - | 536 |
| Depreciation | 179,714 | - | 179,714 |
| Other Ineligibles | 51,037 | - | 51,037 |
| TOTAL EXPENSES | <u>1,030,345</u> | <u>-</u> | <u>1,030,345</u> |
| OPERATING INCOME (LOSS) | <u>(597,911)</u> | <u>-</u> | <u>(597,911)</u> |
| Non-operating Revenues: | | | |
| Local | 88,915 | - | 88,915 |
| State | 264,314 | - | 264,314 |
| Federal | 87,771 | - | 87,771 |
| NET INCOME (LOSS) | <u>(156,912)</u> | <u>-</u> | <u>(156,912)</u> |
| Add depreciation on fixed assets acquired by grants, entitlements, and shared revenues restricted for capital acquisitions | 175,409 | (175,409) | - |
| Add (gain) loss on sale of capital | 3,612 | (3,612) | - |
| Add capital grants and contributions | - | 209,077 | 209,077 |
| INCREASE (DECREASE) IN RETAINED EARNINGS | <u>22,109</u> | <u>30,056</u> | <u>52,165</u> |
| Retained Earnings/Net Assets (deficit) at beginning of year: | (179,179) | 979,175 | 799,996 |
| RETAINED EARNINGS/NET ASSETS (DEFICIT) AT END OF YEAR | <u>\$ (157,070)</u> | <u>\$ 1,009,231</u> | <u>\$ 852,161</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY
Statement of Cash Flows
For the year ended September 30, 2005

| | | |
|---|---|------------------|
| Cash Flows from Operating Activities: | | |
| Collections from customers | \$ | 929,989 |
| Payments to employees and related items | | (492,024) |
| Payments to vendors | | (410,671) |
| | NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>27,294</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Purchase of fixed assets | | (209,096) |
| Proceeds of sale of fixed assets | | 3,612 |
| Increase in contributed capital | | 209,077 |
| Note payable | | - |
| | CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | <u>3,593</u> |
| Cash Flows from Investing Activities: | | |
| Interest income | | - |
| | CASH FLOWS FROM INVESTING ACTIVITIES | <u>-</u> |
| | NET INCREASE (DECREASE) IN CASH | 30,887 |
| Cash, Beginning of Year | | 2,334 |
| | CASH, END OF YEAR | <u>\$ 33,221</u> |
| RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net Income (Loss) | \$ | (156,913) |
| Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities: | | |
| Depreciation Expense | | 179,714 |
| (Increase) decrease in accounts receivable | | 44,497 |
| (Increase) decrease in prepaid insurance | | 1,624 |
| Increase (decrease) in accounts payable | | (50,171) |
| Increase (decrease) in accrued payroll liabilities | | 9,058 |
| Increase (decrease) in deferred revenue | | (515) |
| | NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 27,294</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ALGER COUNTY TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

The Alger County Transit Authority (ALTRAN), which was organized under State of Michigan, Public Act 196 of 1986, provides public transportation to the general public in Alger County, Michigan. The Authority is governed by a six (6) member Board of Directors appointed by the Alger County Board of Commissioners.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Alger County Transit Authority conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

- (1) **Fund Accounting** - Alger County Transit Authority is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Authority's assets, liabilities, net assets, revenues and expense accounts. The Alger County Transit Authority is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- (2) **Basis of Accounting** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.
- (3) **Mission Statement and Nonoperating Revenues and Expenses** - The Authority's primary mission is to provide transportation services through its Authority. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Authority's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair market value.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

Land, Buildings, and Equipment – Land, buildings, and equipment (capital assets) relating to the operations of the Authority are recorded at cost and accounted for in the Alger County Transit Authority Fund. Depreciation on such capital assets is charged as an expense against the operations of the Authority using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

Board-Designated Assets – Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

Use of Estimates – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE C – DEPOSITS AND INVESTMENTS:

The composition of cash and equivalents restricted and unrestricted, reported on the balance sheet are as follows:

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|-----------------|
| Cash and equivalents | <u>\$33,221</u> | <u>\$ -</u> | <u>\$33,221</u> |

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amounts of the Facility's deposits with financial institutions were \$33,221 and the bank balance was \$41,480. Of the bank balance, \$41,480 or approximately 100% was covered by federal depository insurance according to FDIC regulations.

Investments

As of September 30, 2005, the Facility had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE C – DEPOSITS AND INVESTMENTS (Continued):*Credit Risk*

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Facility has no investment policy that would further limit its investment choices. The Facility's investments are in accordance with statutory authority.

NOTE D – FIXED ASSETS:

A summary of the fixed assets for the Authority is as follows:

| | Balance October 1, 2004 | Additions | Disposals | Balance September 30, 2005 |
|-------------------------------|----------------------------|-----------|------------|-------------------------------|
| Building | \$ 929,194 | \$ 600 | \$ - | \$ 929,794 |
| Buses | 945,057 | 197,138 | 204,527 | 937,668 |
| Vehicles | 77,050 | - | - | 77,050 |
| Furniture and Fixtures | 63,234 | 8,944 | - | 72,178 |
| Equipment | 96,910 | 2,415 | - | 99,325 |
| Construction in Progress | - | - | - | - |
| Total | 2,111,445 | 209,097 | 204,527 | 2,116,015 |
| Less accumulated depreciation | 1,106,318 | 179,714 | 200,914 | 1,085,118 |
| NET FIXED ASSETS | \$1,005,127 | \$ 29,383 | \$ (3,613) | \$1,030,897 |

NOTE E – ACCRUED COMPENSATED ABSENCES:

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees per pay period, not to exceed a total accumulation of 10 days. Vacation pay is fully vested, and is payable to employees when they terminate employment.

Sick leave is accumulated at the rate of 4 hours per each bi-weekly pay period, not to exceed a total accumulation of 500 hours. Sick pay is payable at 100 percent of the employees normal pay rate at the time of voluntary termination or termination resulting from fiscal restraints.

The Balance of compensate absences is \$29,347.

NOTE F – SCHEDULE OF CONTRIBUTED CAPITAL:

Changes in contributed capital for the year ended September 30, 2005, consist of the following:

Capital Grants:

| | | |
|-------------------------------------|-----------------------------|-------------|
| Balance, October 1, 2004 | | \$2,081,445 |
| Add grants recognized: | | |
| 2002-006/Z11 | \$ 162,334 | |
| 2002-006/Z15 | - | |
| 2002-006/Z10-R2 | 15,522 | |
| 2002-006/Z3-R1 | 31,221 | |
| 2002-001-0898 | - | |
| | Total Grants | 209,077 |
| Minus Disposals | | (204,527) |
| Facility Share of current additions | | 20 |
| | Balance, September 30, 2005 | 2,086,015 |

Accumulated amortization:

| | |
|--|-----------------------------|
| Balance, October 1, 2004 | 1,102,270 |
| Add - current amortization | 175,409 |
| Minus Disposals | (200,915) |
| Facility Share of current additions | 20 |
| | Balance, September 30, 2005 |
| | 1,076,784 |
| NET CAPITAL GRANTS, SEPTEMBER 30, 2005 | <u>\$ 1,009,231</u> |

NOTE G – SHORT-TERM NOTES PAYABLE:

Short-term notes payable outstanding as of September 30, 2005 consists of the following:

Short-term note payable to bank:

- Original note \$46,000, unsecured, due April 25, 2005, with interest at 6.5%, due October 25, 2005.

NOTE H – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The authority is participating with other Transit Authority's in two separate Michigan Transit Insurance pools.

The Michigan Transit Pool - Liability Trust Fund provides liability insurance to its members' contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded and the Pool may assess members a supplemental assessment in the event of deficiencies. The Pool limits the maximum net loss that may arise from large risks or risks in concentrated areas of exposure by reinsuring certain levels of risk with other insurers or reinsurers. The Authority's insurance coverage is based on various types of risk and the maximum aggregate reimbursement cannot exceed \$1,000,000 for all claims. The Pool is responsible for

NOTE H – RISK MANAGEMENT (Continued):

paying specific claims up to \$250,000 in Medical claims and \$950,000 in General Liability claims from premiums collected and has purchased aggregate reinsurance in excess of these limits.

The Michigan Transit Pool - Direct Property Damage Trust Fund provides direct property damage coverage to its members. Contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded and the Pool may assess members a supplemental assessment in the event of deficiencies. The Fund uses excess insurance to reduce its exposure to individual claims in excess of \$100,000. The insurance policy permits the recovery of losses from the carrier in excess of this limit, but does not discharge the primary liability of the Fund as direct insurer of the risks insured.

The Authority continues to carry commercial insurance for other risks of loss, including general liability, worker's compensation and employee health insurance.

NOTE I – COST ALLOCATIONS:

The Authority has cost allocation plans for allocated expenses. All allocation plans are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation, Bus Transit Division. The plans have been adhered to in the preparation of the financial statements.

NOTE J – RETAINED EARNINGS:

As of September 30, 2005, a deficit of \$157,070 existed in retained earnings. The Authority's financial condition has improved from last year. Management is evaluating its ability to borrow additional funds, reduce daily operating expenditures, and obtain other revenue sources. If such conditions cannot be obtained or received the ability of the Authority to continue operations may be impaired. The Authority is required to and has filed a deficit elimination plan with the Department of Transportation on such matter.

OTHER FINANCIAL INFORMATION

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Operating Revenues
Fiscal Year Ended September 30, 2005

OPERATING REVENUES:

| | | |
|----------------------|----|----------------|
| Fare box Revenue | \$ | 248,338 |
| Job Training | | 2,500 |
| Senior Rides | | 24,000 |
| Bus Advertising | | 22,340 |
| Contributed Services | | 10,958 |
| Other FTA Contracts | | 75,000 |
| Project Zero | | 33,428 |
| Specialized Services | | 15,870 |
| | \$ | <u>432,434</u> |

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Operating Expenses
Fiscal Year Ended September 30, 2005

| | <u>Operations</u> | <u>Maintenance</u> | <u>General Administration</u> | <u>Total System</u> |
|--|-------------------|--------------------|-----------------------------------|-------------------------|
| OPERATING EXPENSES: | | | | |
| Labor: | | | | |
| Operator's salaries and wages | \$ 216,199 | \$ - | \$ - | \$ 216,199 |
| Other salaries and wages | 251 | - | - | 251 |
| Dispatchers salaries and wages | 47,199 | - | - | 47,199 |
| Administration salaries and wages | 900 | - | 55,477 | 56,377 |
| Maintenance salaries and wages | - | 10,506 | - | 10,506 |
| Board Members wages | - | - | 650 | 650 |
| Fringe Benefits: | | | | |
| FICA Employer | 17,489 | 1,111 | 5,810 | 24,410 |
| MEDI Employer | 4,090 | 332 | 1,359 | 5,781 |
| Insurance | 48,037 | 4,742 | 19,850 | 72,629 |
| Other Fringe Benefits | 39,249 | 1,860 | 25,971 | 67,080 |
| Services: | | | | |
| Advertising/Promotion | 42 | - | 17,602 | 17,644 |
| Auditing Services | - | - | 4,850 | 4,850 |
| Custodial Services | 2,486 | - | - | 2,486 |
| Other Services | 5,083 | 2,014 | 2,463 | 9,560 |
| Materials & Supplies: | | | | |
| Fuel and Lubricants | 97,308 | - | 184 | 97,492 |
| Tires and Tubes | 4,164 | - | - | 4,164 |
| Other materials and supplies | 30,854 | 135 | 4,297 | 35,286 |
| Utilities | 25,212 | - | - | 25,212 |
| Casualty and Liability Insurance: | | | | |
| PL and PD Insurance | 91,856 | - | - | 91,856 |
| Other Corp. Insurance | - | - | 4,294 | 4,294 |
| Miscellaneous: | | | | |
| Vehicle Registrations | 254 | - | - | 254 |
| Dues and Subscriptions | - | - | 1,384 | 1,384 |
| Travel and Meetings | 135 | - | 1,007 | 1,142 |
| Equipment/Maintenance. Contract | 1,599 | - | 469 | 2,068 |
| Finance Charges | - | - | 284 | 284 |
| Leases and Rentals | 400 | - | 136 | 536 |
| Depreciation | 179,714 | - | - | 179,714 |
| Other Ineligible | | | | |
| Contributed Wages FTA - Ineligible | 7,130 | - | 913 | 8,043 |
| Dues - Ineligible | - | - | 53 | 53 |
| Interest Expense - Ineligible | - | - | 11,149 | 11,149 |
| RTAP - Ineligible | 274 | - | 3,226 | 3,500 |
| Maintenance Wages - Ineligible | - | 1,260 | - | 1,260 |
| III - B Wages - Ineligible | - | - | 21,991 | 21,991 |
| Job Training Wages - Ineligible | - | 2,499 | - | 2,499 |
| Capital Expense - Ineligible | - | 1,941 | - | 1,941 |
| Other - Ineligible | - | - | 601 | 601 |
| TOTAL | \$ 819,925 | \$ 26,400 | \$ 184,020 | \$ 1,030,345 |

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Non-operating Revenues
Fiscal Year Ended September 30, 2005

| | | |
|--|----|----------------|
| Local Operating Grants: | | |
| Local Property Tax Revenue | \$ | 11,808 |
| Local Operating Assistance | | 8,770 |
| Maintenance Contracts | | 1,260 |
| Administrative Contracts | | 28,500 |
| Miscellaneous Revenues | | 40,730 |
| SUBTOTAL LOCAL OPERATING GRANTS | | <u>91,068</u> |
| Gain from Capital Sales | | (2,436) |
| Interest Income | | 283 |
| TOTAL NON-OPERATING REVENUES - LOCAL | \$ | <u>88,915</u> |
| State of Michigan Operating Grants: | | |
| Local bus operating assistance | \$ | 264,314 |
| TOTAL STATE OF MICHIGAN OPERATING GRANTS | \$ | <u>264,314</u> |
| Federal Operating Grants: | | |
| U.S. DOT Operating Grant | \$ | 84,271 |
| R.T.A.P. | | 3,500 |
| TOTAL FEDERAL OPERATING GRANTS | \$ | <u>87,771</u> |

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Expenses by Contract and General Operations
Fiscal Year Ended September 30, 2005

| | Contract | Contract - Specialized | General | |
|----------------------------------|---------------------|---------------------------------------|-------------------|---------------------|
| | <u>Project Zero</u> | <u>Services/ Volunteer Driver</u> | <u>Operations</u> | <u>Total</u> |
| Labor | \$ 13,845 | \$ 6,573 | \$ 310,763 | \$ 331,182 |
| Fringe Benefits | 7,103 | 3,372 | 159,425 | 169,900 |
| Services | 1,444 | 686 | 32,410 | 34,540 |
| Materials and Supplies | 5,725 | 2,718 | 128,499 | 136,942 |
| Utilities | 1,054 | 500 | 23,658 | 25,212 |
| Casualty and Liability Insurance | 4,020 | 1,908 | 90,222 | 96,150 |
| Miscellaneous | 203 | 96 | 4,549 | 4,848 |
| Finance Charges | 12 | 6 | 266 | 284 |
| Leases and Rentals | 22 | 11 | 503 | 536 |
| Depreciation | - | - | 179,714 | 179,714 |
| Other Ineligibles | - | - | 51,037 | 51,037 |
| TOTALS | <u>\$ 33,428</u> | <u>\$ 15,870</u> | <u>\$ 981,047</u> | <u>\$ 1,030,345</u> |

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Net Eligible Cost Computations of General Operations
Fiscal Year Ended September 30, 2005

| | Federal Section 5311* | State Operating Assistance |
|--|--------------------------|----------------------------------|
| Total Expenditures | \$ 1,030,345 | \$ 1,030,345 |
| Less Ineligible Expenses: | | |
| Depreciation | 175,409 | 175,409 |
| FTA Contribute Wages | 8,043 | - |
| Dues | 53 | 53 |
| Finance Charges | 11,149 | 11,149 |
| Maintenance | 1,260 | 1,260 |
| Administrative Contract | 21,991 | 21,991 |
| Job Training | 2,499 | 2,499 |
| Capital Contract | 1,941 | 1,941 |
| State Advance Interest | 601 | 601 |
| Less: | | |
| R.T.A.P. | 3,500 | 3,500 |
| FTA | 75,000 | 75,000 |
| Project Zero | 33,428 | 33,428 |
| Specialized Services | 15,870 | 15,870 |
| TOTAL INELIGIBLE EXPENSES | <u>350,744</u> | <u>342,701</u> |
| NET ELIGIBLE EXPENSES | <u>\$ 679,601</u> | <u>\$ 687,644</u> |
| STATE STATUTORY OPERATING ASSISTANCE the greatest of its: | | |
| Statutory cap: 60 percent of eligible expenses | | <u>\$ 412,586</u> |
| Minimum: 1996-97 Formula | | <u>\$ 202,105</u> |
| STATE STATUTORY OPERATING ASSISTANCE 38.44% | | <u>\$ 264,314</u> |
| FEDERAL SECTION 5311 12.40% | <u>\$ 84,271</u> | |

* Federal Section 5311 expenses are only those expenses incurred in providing services to non-urbanized areas. All of the areas the authority serves are classified as non-urbanized areas.

ALGER COUNTY TRANSIT AUTHORITY
Schedule of Ineligible Expenses
Fiscal Year Ended September 30, 2005

| <u>Program</u> | <u>Federal Section 5311</u> | <u>State Operating Assistance</u> |
|--|---------------------------------|---|
| Urban Mass Transportation Administration Operating Grants: | | |
| 1. Depreciation allocable to contributed capital is not an eligible expense. | \$ 175,409 | \$ 175,409 |
| 2. Expenses relating to FTA contributed wages. | 8,043 | - |
| 3. A portion of association dues are ineligible expenses. | 53 | 53 |
| 4. Finance and interest charges paid for late payments are ineligible. | 11,149 | 11,149 |
| 5. Expenses reimbursed under R.T.A.P. Grant are ineligible. | 3,500 | 3,500 |
| 6. Expenses reimbursed for maintenance services are ineligible. | 1,260 | 1,260 |
| 7. Expenses reimbursed for administrative service contracts are ineligible. | 21,991 | 21,991 |
| 8. Expenses reimbursed for job training wages are ineligible. | 2,499 | 2,499 |
| 9. Expenses reimbursed by other capital contracts. | 1,941 | 1,941 |
| 10. Interest expense on State Advances are ineligible. | 601 | 601 |
| 11. Expenses reimbursed under other FTA contracts are ineligible. | 75,000 | 75,000 |
| 12. Expenses reimbursed under Project Zero are ineligible. | 33,428 | 33,428 |
| 13. Expenses reimbursed under Specialized Services are ineligible. | 15,870 | 15,870 |
| | <u>\$ 350,744</u> | <u>\$ 342,701</u> |

| Federal Grantor/Pass Thru Grantor/Program Title | CFDA Number | State Number | State or Award Number | Program Amount | Due From State @ 9/30/2004 | Amount Paid By State in FY 2005 | Revenue/Expenditures FY 2005 | Due From State @ 9/30/2005 | Amount Remaining |
|---|-------------|--------------|-----------------------|----------------|----------------------------|---------------------------------|------------------------------|----------------------------|------------------|
| Federal Grantor/Pass Thru Grantor/Program Title | CFDA Number | State Number | State or Award Number | Program Amount | Due From State @ 9/30/2004 | Amount Paid By State in FY 2005 | Revenue/Expenditures FY 2005 | Due From State @ 9/30/2005 | Amount Remaining |

Michigan Department of Transportation

| | | \$ | \$ | \$ | \$ | \$ | \$ |
|--------------------------|-----|------------------|----------|------------|------------|------------|-----------|
| Capital Grant | N/A | 2002-0006/Z11 | - | 172,755 | - | 162,334 | - |
| Capital Grant | N/A | 2002-0006/Z15 | - | 58,000.00 | - | - | - |
| Capital Grant | N/A | 2002-0006/Z10-R2 | 3,900.00 | 225,000.00 | 19,174.12 | 15,521.56 | - |
| Capital Grant | N/A | 2002-0006/Z3-R1 | 188.26 | 62,500.00 | 31,409.74 | 247.44 | 16,833.60 |
| Capital Grant | N/A | 2001-0898 | (70.00) | 151,353.00 | (70.00) | 31,221.48 | 21.74 |
| Total Capital Assistance | | | 4,018.26 | 669,608.00 | 212,847.86 | 209,077.04 | 85,276.34 |

U.S. Department of Transportation
State and Federal Operating Assistance
Computations based on Operating Expense

| Passed through MDOT | | | | | | |
|-----------------------------------|--------|-----------|---|-----------|-----------|------------|
| Operating Assistance - Section 18 | 20,509 | 9/30/2005 | - | 68,290.87 | 84,270.52 | 15,979.65 |
| Operating Assistance - Section 18 | 20,509 | 9/30/2004 | - | 4,036.00 | - | 6,826.15 |
| Operating Assistance - Section 18 | 20,509 | 9/30/2003 | - | 10,862.15 | - | (1,836.10) |
| Operating Assistance - Section 18 | 20,509 | 9/30/2002 | - | 522.00 | - | 522.00 |

Michigan Department of Transportation

[illegible]

| | | |
|----|----------------|-----------------------|
| \$ | 167,262 | Capital = 80% Federal |
| \$ | 84,271 | Federal Operating |
| \$ | <u>251,532</u> | Total Federal Dollars |

ALGER COUNTY TRANSIT AUTHORITY
Mileage Data (Unaudited)
Fiscal Year Ended September 30, 2005

| | Public Transportation <u>Mileage</u> |
|-----------------------|--|
| Demand Response: | |
| First Quarter | 121,080 |
| Second Quarter | 123,332 |
| Third Quarter | 118,859 |
| Fourth Quarter | 120,260 |
| Total Demand Response | <u>483,531</u> |

All of the Authority's mileage is demand response.

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Alger County Transit Authority
Munising, Michigan 49862

We have audited the financial statements of the business-type activities of each major fund of the Alger County Transit Authority, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alger County Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described to management in a separate letter dated December 15, 2005.

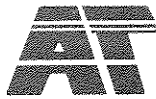
Internal Control over Financial Reporting

In planning and performing our audit, we considered the Alger County Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board and management of the Alger County Transit Authority, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 15, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Alger County Transit Authority Report to Management Letter For the Year Ended September 30, 2005

Board of Directors
Alger County Transit Authority
Munising, Michigan 49862

In planning and performing our audit of the financial statements of the Alger County Transit Authority for the year ended September 30, 2005, we considered its internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted no matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Alger County Transit Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following comments are not reportable conditions as defined by the AIPCA but are management points for which we feel consideration should also be given.

Fund Balance Deficit

Public Act 275 of 1980 requires that all deficits in any fund balances of local units be disclosed and enumerated upon in Footnotes of the financial statements.

In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the Alger County Transit Authority has filed such a plan. We recommend the Alger County Transit Authority monitor the fund closer in future years to ensure there are sufficient revenues to cover the expenditures each year.

Statement of Position

The Authority's financial condition remained stable with the cash and the retained earnings deficits in the current year. However, we suggest management continue to evaluate alternative revenue sources or cost cutting measures to begin to reverse the fund balance deficit position.

OTHER COMMENTS AND RECOMMENDATIONS

Segregation of Duties

Due to the small staff size of the Alger County Transit Authority, the proper segregation of duties in the accounting applications is not always practical. The most critical areas are cash and cash management, where there is a possibility that intentional or unintentional errors could be made and

Board of Directors
Alger County Transit Authority
Munising, Michigan 49862

go undetected for a period of time exists. To alleviate this condition, we recommend that the Board review the financial reports at their board meetings and has adopted a policy regarding their involvement in the check issuance process.

This report is intended solely for the information and use of the Alger County Transit Authority's management, and others within the Administration.

We appreciate and would like to thank the Alger County Transit Authority's staff for the cooperation and courtesy extended to us during our audit. We would be please to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 15, 2005